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SUBJECT: Big Plans for Hainan -- Officials and Business Leaders
Discuss Development and Cooperation During CG's Visit

11. (SBU) Summary: Key components of China's economic development strategy will be pilot tested in Hainan Province, according to provincial officials and researchers. Officials claimed central government proposals set to be approved soon would position the island province as a duty free zone, fully open the province's service sector to foreign investment, transform the island into an international tourism destination, and establish the province as the first special zone for environmental protection. During recent meetings with the Consul General, Hainan officials and business leaders expressed optimism regarding development prospects, and pointed to tourism management, environmental protection and renewable energy as three potential areas for U.S. business involvement and broader cooperation. End Summary.

KEEPING DENG XIAOPING'S VISION ALIVE

12. (SBU) Deng Xiaoping's strategic vision for Hainan when he made it China's largest Special Economic Zone (SEZ) in the 1980s was that it would become another Hong Kong, according to Chi Fulin, president of the China Institute for Reform and Development (CIRD). In a September 24 meeting with the Consul General, Chi acknowledged that Hainan had fallen short of Deng's vision but stated that development prospects for the island remain promising. CIRD is a highly regarded Hainan-based think tank formed jointly by the Chinese central and Hainan provincial governments. Chi told the CG that the central government would soon approve a comprehensive development program designed by CIRD that would make Hainan a duty free zone, fully open the service sector to foreign investment in support of tourism industry development, strengthen urban and rural economic and social integration, and grant the island status as China's first special zone for environmental protection. Assuming the program is approved, Chi believes these measures will not only accelerate Hainan's economic growth but also serve as a development model for the rest of the country.

TOURISM HARDWARE IN PLACE, SOFTWARE STILL LACKING

13. (SBU) Facilitating Hainan's efforts to become a first-tier international tourism destination in the next 15 to 20 years is a key priority for the Central Government, according to Vice Governor

Li Guoliang. Sanya, dubbed the "Hawaii of the Orient" and Hainan's top beach city, already boasts the greatest concentration of five-star hotels in China. In addition to high levels of investment in its tourism infrastructure, the island also benefits from a favorable visa policy. According to the provincial government's website, tourist groups of at least five people from 21 countries including the United States can visit without obtaining a Chinese visa. Transportation to/from the island province is also facilitated by the quickly expanding Hainan Airlines, China's largest privately-owned airline and the fourth largest overall in terms of market share. (Note: Half of the 215 aircraft in Hainan Airlines' fleet are Boeing and according to the Chairman and CEO, Chen Feng, the airline has plans to add 60 aircraft every year for the next five years. Septel on south China aviation to follow. End Note.)

14. (SBU) While officials proudly noted the rapid growth of Hainan's tourism industry, they also pointed out that continued growth would largely depend on improvements in tourism management practices. According to Chi of CIRD, the quality of services currently provided at Hainan's five-star hotels is relatively low; he added that it would take Hainan 10-20 years to catch up with Hawaii in quality of service. Both Vice Governor Li and Sanya Vice Mayor, Rong Liping, affirmed Chi's assessment regarding service quality. Li also said that Hainan could learn from the vast experience the United States had in tourism sector planning, while Rong agreed with the CG's view that opportunities existed for U.S. businesses to provide training in hotel management and service provision as well as cruise boat handling.

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COOPERATION ON ENVIRONMENTAL PROTECTION AND CLEAN ENERGY

15. (SBU) As Hainan seeks to become an international tourism destination, cooperation on environmental protection and clean energy will become increasingly important priorities, according to officials and business leaders. At a meeting with several general managers (GMs) of the top five-star hotels in Sanya, the executives came to a consensus that even minimal deterioration of environmental conditions would severely hamper tourism development. Sanya reportedly enjoys the best air quality in China, but, in the words of one GM, "Sanya without its environment is nothing, it's history." (Comment: Hainan government officials admit Sanya's focus -- 95% -- is on China's domestic tourist market, with barely 5% coming from outside China. GMs note few repeat visits by Chinese clients as most prefer to see a new venue rather than return to one previously tried. Massive numbers of 3-star hotels already service the Chinese market and the GMs express concern about market pressure when 5-star hotel numbers jump from 13 to 20 by 2015. End Comment.)

16. (SBU) Hainan's need to maintain high air and water quality is part of the motivation behind CIRD's efforts to have the province declared a special zone for environmental protection. In response to the CG's comment that U.S. companies have considerable expertise and capacity in this field, Chi noted that CIRD's proposal for Hainan to be set apart as a special zone for environmental protection would require the province meet international environmental standards, creating an increased need to work with foreign businesses and import new technologies. Additionally, Chi said that Hainan needed to make greater efforts to entice international companies to set up demonstration projects on the island that could serve as models for the rest of the country.

17. (SBU) Cooperation with U.S. businesses and research institutions would also be welcome in the area of renewable energy development, according to Fan Yimin, Secretary General of the Hainan Renewable Energy Association. According to Fan, although the province has the objective of scaling up renewable energy usage from less than 1% to 15% of total energy by 2020, no overall plan exists for how to achieve this goal. Fan said that he hoped to establish cooperative ties with U.S. businesses and organizations based on the model of cooperation that currently exists with the British. Fan explained that British Consulate officials arranged frequent visits by

delegations of renewable energy firms to Hainan to identify specific projects or business opportunities. Once opportunities have been identified, the British Consulate arranged follow-up visits for representatives of specific firms to initiate cooperative activities or sign agreements. (Note: Earlier, Vice Governor Li had offered a similar assessment and suggested U.S. firms likewise needed to make a concerted pitch with the Consulate's support. AmCham was approached and it is now preparing a mid-December delegation visit for interested U.S. firms. End Note.)

18. (SBU) Fan also provided the CG with a document containing summaries of eight renewable energy research projects presently active in Hainan. Some of the project summaries identify specific cooperation links that the research agency seeks to establish with foreign counterparts. For example, the summary of a project researching the feasibility of using tapioca to produce 100,000 tons per year of ethanol fuel specifically mentions the possibility of joint research and introduction of cellulosic ethanol technology from U.S. companies such as Coskata. Cooperation with the U.S. Department of Energy and a number of U.S. energy and airline companies is also outlined in the description of a project to produce bio-diesel from oil-bearing microalgae. In this regard, Fan felt a visit by Embassy's Beijing DOE rep would be well received. The summaries of a sea-source heat pump project, an off-shore wind farm project and a deep rock heat utilization project also mention the need to cooperate with the United States to set up demonstration projects in Hainan.

19. (SBU) Another potential vehicle for cooperation on environmental protection and clean energy is the sister state and city relationships that Hainan and Sanya currently maintain with Hawaii and Maui, respectively. Wu Shicun, Director General of the Hainan

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Foreign Affairs Office, agreed that this mechanism could be effective in building relationships but stated his hope that Hawaii would be a more active member of the partnership. Vice Governor Li, who attended a clean energy conference in Hawaii last year, also stressed the importance of the sister state relationship and shared with the CG his idea of an annual clean energy summit that would be hosted alternately in Hainan and Hawaii.

THINK TANK COOPERATION

10. (SBU) During the Consul General's meeting with CIRD President Chi, Chi explained that CIRD had a long history of cooperation with U.S. think tanks, including the RAND Corporation and the International Republican Institute (IRI). Chi noted that the Central Government had suspended cooperation with IRI by think tanks like CIRD two years ago. He expressed willingness to explore the possibility of reestablishing ties but he signaled that Beijing must first be persuaded before CIRD could re-engage IRI.

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